



ARTS COMMISSION: 05-13-15

ITEM: (h.)

Memorandum

TO: ARTS COMMISSION

FROM: Kerry Adams Hapner

SUBJECT: (SEE BELOW)

DATE: May 6, 2015

Approved:

Date:

May 5, 2015

SUBJECT: PROPOSED FY 2015-2016 OPERATING BUDGET RELATED TO CULTURAL DEVELOPMENT PROGRAMS AND SERVICES

RECOMMENDATION

Review and receive the proposed 2015-2016 funding allocations for Arts and Cultural Development Programs and Services.

BACKGROUND

The purpose of this memo is to: 1) convey the elements of the City Manager's Proposed 2015-2016 Operating Budget that describe the proposed funding available for cultural development services and programs, 2) outline cultural development priorities, 3) describe the proposed 2015-2016 projected and rebudgeted Transient Occupancy Tax (TOT) allocations, and 4) outline City-wide General Fund support for cultural facilities.

An overview of the Cultural Development TOT Fund, including grant funding recommendations, will be presented for City Council approval as part of the City Manager's Proposed 2015-2016 Operating Budget.

Arts Funding Relative to Economic Conditions

During the economic downturn and the decade of the City of San Jose's ongoing structural deficit, the Office of Cultural Affairs' (OCA) General Fund support was eliminated. The OCA is now funded through TOT, Percent for Art (capital improvement), and grant and/or interagency service agreement funds. The level of TOT collections is directly related to the status of the economy. When the economy is growing, conventions, business travel and tourism activity increase, which leads to higher occupancy rates in hotels. With increased occupancy, the hotels are able to raise room rates, which positively impacts TOT collections. Conversely, when the economy is declining, TOT revenues tend to decrease and can do so quite rapidly.

During the economic downturn time, the TOT experienced significant fluctuations; collections dropped for several years and are now increasing. To minimize and mitigate the effects of the

economic crisis on San Jose's arts sector, the City sought to stabilize services to the arts sector, specifically arts grants, by implementing several strategies including:

- Reducing the number of FTE OCA staff positions from 20 to 9;
- Eliminating core programs and services such as Arts Express and special event production, among others;
- Reducing non-personnel and program costs;
- Utilizing one-time reserves to stabilize core grants programs;
- Prioritizing the Operating Grant Program, as unrestricted operating grants are central to nonprofits' governance and stability;
- Implementing a recession tool kit and increasing services to strengthen financial management; and
- Actively seeking grants and sponsors to leverage City funding.

The retention of arts funding by the City during a time of economic crisis was due to the recognition of the significant social and economic benefits of the arts sector in San Jose. While the economy is recovering, these financial mitigations are still in place.

ANALYSIS

Available Funding

Available 2015-2016 funding for Arts and Cultural Development Programs and Services outlined in the attachment is estimated at \$5,846,625. These funds include:

- Projected TOT revenues, based on the Budget Office's estimate, and
- Estimated "Rebudgeted TOT" from one-time appropriations and unspent 2014-2015 funds (derived primarily from Long Term Reserve, Programmatic Reserve, and unspent program funds).

An additional \$3,349,000 in General Fund supports the operations and maintenance agreements for six City-owned cultural facilities.

Cultural Development Funding Priorities

As part of the implementation of the Council-adopted *Cultural Connection: San Jose Cultural Plan for 2011-2020*, a 2014-2016 Prioritized Workplan has been developed that reflects the top priorities for cultural development in San Jose. Developed in coordination with the Arts Commission, this workplan was approved by the City Council on May 20, 2014.

Cultural Connection strategic goals include:

- Support residents' active, personal participation in arts and culture;
- Support the availability of diverse cultural spaces and places throughout the community;
- Strengthen Downtown San Jose as the creative and urban center of the Silicon Valley;
- Integrate high impact public art and design throughout the community;
- Expand residents' access to arts and cultural learning opportunities;

- Foster destination quality events in San Jose;
- Strengthen community-wide marketing and audience engagement;
- Enhance support for creative entrepreneurs and the commercial creative sector;
- Strengthen the cultural community's infrastructure; and
- Increase funding for cultural development.

The Mayor's March Budget Message for FY 2015-2016 called for several cultural initiatives in the area of "Boosting Vitality." Among these was the direction to fund Independence Day celebrations with up to \$75,000 in TOT funding. These funds will be used to fund planned firework celebrations in Downtown and Almaden Valley. Additionally, the message directed funding of *San Jose Creates & Connects*, a city-wide placemaking strategy focusing on forms of creative expressions. Identified funds would be proposed as a match against philanthropic funding, for which the OCA would apply. Anticipating that *San Jose Creates & Connects* will be multi-year across 10 City districts, \$200,000 is identified for this initiative.

The proposed budget reflects these priorities through allocations for specific initiatives outlined in the proposed *Cultural Connection* 2014-2016 Prioritized Workplan and the Mayor's March Budget Message for FY 2015-2016. Among the priorities are:

- Cultural Funding Portfolio (Operating Grants, Festivals, Parades and Celebrations Grants, take pART Grants, special grants, and grants administration);
- Arts Marketing and Audience Engagement, including the *Live and Local* live music campaign;
- Building Public Will for the Arts implementation, an initiative aimed at making art and culture an expected part of everyday life through the alignment of closely held existing values such as creative expression and connection;
- City Hall Art Exhibits and Plaza Cultural Activation;
- Creative placemaking in the Downtown and City-wide;
- Creative Entrepreneur Program (artists and commercial creative businesses);
- Creative Industries Incentive Fund;
- Fourth of July Celebrations;
- Nonprofit infrastructure support, including organizational development services such as the DeVos Institute implementation grants and Innovation Risk Capital Grants; and
- *San Jose Creates & Connects*, a City-wide and neighborhood arts activation strategy.

TOT Revenues

Fifteen percent of the collected TOT is used for the funding of cultural arts grants and the OCA. Per the municipal code, allowable uses are OCA operating costs (staff and administration), arts programs and arts grants. Each year, grant awards are recommended based on projected TOT. The total 2015-2016 TOT projected revenue for the arts is \$5,701,886, an estimated growth of 20.2% as compared to 2013-2014. Current year TOT receipts mark the fifth year of growth, which is in stark contrast to prior year declines of 11.5% and 18.5% in 2009-2010 and 2008-2009, respectively.

Proposed Program Funding for the Cultural Funding Portfolio and Cultural Development

The recommended 2015-2016 level for the three “core” competitive arts and cultural grant programs of the Cultural Funding Portfolio was developed by the following calculation:

Projected 2015-2016 TOT	\$5,701,886
- Cultural Development Personnel and Non Personnel Costs	- \$1,911,404
Subtotal	<u>\$3,790,482</u>
- 10% Variance Contingency	- \$379,048
Less Grant Review Expenses	- \$20,000
Total Available for Three ‘Core’ Programs Cultural Funding Portfolio	\$3,391,434

This reflects an increase of 22% in funding available from 2014-2015 for the Cultural Funding Portfolio.

Since grants are awarded based on projected TOT revenues, the variance contingency was established to cover shortfalls of up to 10% in TOT revenues actually received by the City, compared with TOT revenues projected. For example, in 2008-2009, actual TOT collections fell significantly below the TOT amount projected in January 2008. Since grant awards were based on the projection, there was a shortfall of \$773,000, exceeding the variance contingency. Rather than not issue the full 2008-2009 award to grantees, the remaining shortfall of \$298,000 carried over into 2009-2010. This shortfall illustrates the importance of having a variance contingency each fiscal year. The TOT Long Term reserve is utilized to stabilize cultural funding in future years to offset inevitable TOT fluctuations and any increases in operating costs.

There is an upward adjustment or “bump” in TOT of \$965,000 as collected TOT exceeded TOT projections. This amount, combined with estimated unspent funds from FY 2015-2016, is included in the rebudgeted TOT column of the attached budget, and is used to fund cultural development and implementation of *Cultural Connection*. Rebudgeted TOT funds are “one-time.” It is envisioned that the estimated rebudgeted TOT be allocated to the \$1,250,000 in planned *Cultural Connection* initiatives over multiple years.

2015-2016 Cultural Development Budget

There are minimal proposed budget impacts to Cultural Development in the proposed FY 2015-2016 Operating Budget. The overstrength two staff positions approved during FY 2014-2015 are proposed to be extended through FY 2015-2016. (The Administration is currently planning the recruitment for these positions.)

Cultural Facilities

Through the General Fund, the City will continue to support the operations and maintenance (O&M) agreements with nonprofit partners operating City-owned cultural facilities. To meet the General Fund shortfall for FY 2011-2012, cultural facility O&M costs were reduced by a collective 10%, totaling \$358,000. The following cultural facility operators are recommended to receive continued O&M support through the General Fund in FY 2015-2016 per their existing agreements:

Cultural Facility Operator	O&M agreement
Children's Discovery Museum	\$285,000
History San Jose	\$784,000
San Jose Museum of Art	\$475,000
Hammer Theatre Center / Former San Jose Rep	\$250,000
School of Arts & Culture at Mexican Heritage Plaza	\$450,000
Tech Museum of Innovation	\$1,105,000
TOTAL	\$3,349,000

Through the General Fund, the City supports some maintenance and cultural facility capital repair costs, which varies from year to year. The City has made strides towards identifying the capital maintenance needs of its cultural facilities. The City is working in collaboration with the nonprofit operators to ensure that these cultural facilities remain competitive as regional facilities and community hubs that serve well over a million people a year.

In 2012-2013, the Cultural Facilities Capital Maintenance Matching Fund was established to set aside reserves to address the facilities' life cycle needs, in which the City would match 5% of the current level of each facility O&M subsidy and set it aside into this fund. The Children's Discovery Museum, the Tech Museum of Innovation and the School of Arts & Culture at MHP participate in this optional partnership.

In addition to the General Fund O&M allocations, Team San Jose, through its TOT allocation, supports the operations and maintenance of the Center for the Performing Arts, California Theater, Civic Theater, and the Montgomery Theatre.

As part of the Operating Budget for Fiscal Year 2014-2015, the Mayor directed that the growth in the four percent in the TOT revenues that come to the City's General Fund above the 2013-2014 base year be used for City-owned cultural facilities' deferred maintenance and capital replacement needs. This is estimated at approximately \$2.8 million in FY 2015-2016. The Department of Public Works will develop a project prioritization in coordination with the facility operators and the OCA.

OUTCOME

The proposed 2015-2016 Operating Budget will:

- assist community-based arts organizations to provide arts and cultural activities and experiences for residents and visitors;
- support a wide range of outdoor special events and celebrations; and
- foster cultural development and creative placemaking in San Jose.

Should the Arts Commission, in its role advising the City Council on all matters pertaining to the arts, choose to comment on any items in the proposed budget, those comments will be forwarded to the City Council for its consideration as part of the annual budget process.

ARTS COMMISSION

May 6, 2015

Subject: Proposed 2015-2016 Operating Budget Related to Cultural Development Programs and Services

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KERRY ADAMS HAPNER

Director of Cultural Affairs

Attachment A. Proposed 2015-2016 Projected and Rebudgeted TOT Allocations

Attachment B. Descriptions of Proposed 2015-2016 Projected and Rebudgeted TOT Allocations

Proposed 2015-2016 Projected Rebudgeted TOT Allocations

Funding Sources:

Projected 2015-16 TOT Revenues	Rebudgeted TOT Funds (One Time Funds)	2015-16 TOTALS
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CULTURAL FUNDING PORTFOLIO

Core Grant Programs

1	Festival, Parade & Celebration Grants	454,158		
2	Operating Grants	2,675,534		
3	Take pART Grants	261,600		
<i>Sub-Total Core Grants</i>		3,391,292		3,391,292

Grants Admin

4	Grant Review Expenses	20,000	0	20,000
5	TOT Revenue Shortfall Contingency	379,050	0	379,050
6a	TOT Long-Term Reserve		707,283	
6b	TOT Long-Term Reserve Augmentation		0	
6c	Total TOT Long-Term Reserve		707,283	707,283
<i>Sub-Total Cultural Funding Portfolio</i>		3,790,342	707,283	4,497,625

CULTURAL DEVELOPMENT AND CULTURAL CONNECTION IMPLEMENTATION (GRANTS & INITIATIVES)

7	Arts Education Exposure Program Transition Support		5,000	5,000
8	Arts Marketing: grants and arts promotion		60,000	60,000
9	Building Public Will for the Arts Technical Assist. & Grants		100,000	100,000
10	Business / Private Sector Support for the Arts		20,000	20,000
11	City Hall Art Exhibits and Plaza Cultural Activation		75,000	75,000
12	Creative Economy and Creative Entrepreneur Study		50,000	50,000
13	Creative Entrepreneur Project Grants & Business of Art TA		50,000	50,000
14	Creative Industries Incentive Fund (2 years)		50,000	50,000
15	Creative Placemaking - Downtown & City-Wide		65,000	65,000
16	Cultural Connection Implementation Strategies		60,000	60,000
17	Fourth of July Events (Mayor's March Budget Message)		75,000	75,000
18	Innovation Risk Capital Grants		40,000	40,000
19	International (Sister City) Cultural Exchanges		20,000	20,000
20	Live and Local Live Music Marketing Campaign (SJDA)		40,000	40,000
21	Nonprofit Organizational Development: DeVos Grants		75,000	75,000
22	Nonprofit Organizational Development		50,000	50,000
23	Programmatic Reserve		75,000	75,000
24	San Jose-based arts conferences: AFTA, ZERO1, WMA		40,000	40,000
25	San Jose Creates & Connects City-Wide (Mayor's March Budget Message)		200,000	200,000
26	SoFA Activation		50,000	50,000
27	Special Event Incentive Initiative (grants or incentives)		35,000	35,000
28	Special Grant: Silicon Valley Creates		15,000	15,000
<i>Sub-Total Cultural Development & Cultural Connec. Implem.</i>		0	1,250,000	1,250,000

PUBLIC ART

29	Conservation/Maintenance, Public Outreach, and Policy		80,000	80,000
<i>Sub-Total Public Art</i>		0	80,000	80,000

SPECIAL PROJECTS / ACTIVITIES

30	Arts Commission Activities		9,000	9,000
31	Cornerstone of the Arts Award/Arts & Leadership Event		10,000	10,000
<i>Sub-Total Special Projects / Activities</i>		0	19,000	19,000
Totals		3,790,342	2,056,283	5,846,625

Sources of Funds: 2015-16 Arts Budget

Columns A, B... Transient Occupancy Tax (TOT): City ordinance allocates a portion of San Jose's TOT to the arts, for two allowable uses: 1) cultural grants; and 2) funding the expenses of the Office of Cultural Affairs, including but not limited to personal, nonpersonal, and equipment expenses, fringe benefits, and overhead.

Column A: Represents the City's projection of TOT revenues to be received from July 2015 through June 2016 less anticipated cultural development personnel and nonpersonnel costs.

Column B: Includes actual TOT collections that have been carried over ("rebudgeted") from the previous year, including various reserves, unspent funds, liquidated purchase orders and grants, revenues that exceeded projections in previous years, etc. One time funding.

Column C..... The total estimated amount of projected and rebudgeted TOT (sum of columns A and B).

Uses of Funds: 2015-16 Arts Budget

Lines 1-3 Cultural Funding Portfolio Core Grant Programs: Festival, Parade and Celebration grants; Operating Grants; and take pART Grants (cultural participation project/program grants).

Lines 4 Grant review panel materials, honoraria, etc.

Line 5 TOT Revenue Shortfall Contingency: 10% of projected TOT revenues are withheld in case revenues don't meet projection, to minimize the need for midyear grant reductions or program cuts.

Lines 6a-c TOT Long-Term Reserve: Funds set aside in growth years for use when TOT falls. A long-range purpose, if the growth of the Reserve supports it, is to switch to basing grants on collected rather than on projected TOT revenues.

Line 6a – Funds allocated to the Long-Term Reserve at beginning of 2015-16

Line 6b – Long Term Reserve recommended for augmentation

Line 6c – Remaining Long Term Reserve after augmentation

Lines 7-28..... Cultural Development/*Cultural Connection* Implementation: Strategic initiatives such as special grants, creative entrepreneur/artist support, arts exposure program transition support, arts marketing, Building Public Will for the Arts technical assistance and adoption grants; San Jose Creates & Connects City-wide initiative, downtown and city-wide placemaking, incentivizing outdoor special events, Downtown and SoFA activation, De Vos innovation risk capital grants, and other cultural development strategies aligned with *Cultural Connection*. Programmatic Reserve is the source of funding for future arts programs and implementation strategies - both existing programs and new program opportunities - as rebudgeted TOT is one time funding.

Line 29 Funding for public artwork conservation, maintenance, and outreach. Includes costs of public art staff time to perform these responsibilities. Note that \$21,000 of General Fund is in the Dept of Public Works budget set aside for general public art maintenance.

Line 30 Supports all expenses directly related to the Commission, including events, meetings, retreat, business cards, materials and supplies.

Line 31 Funding for the Cornerstone of the Arts Award Program and Event.